



SECTION 1

Summary of the Capital Planning Process

This section of the Capital Budget Instructions provides a general overview of the capital planning process. Detailed instructions about the specific steps state agencies and institutions should take to develop their Ten-Year Capital Plans are contained in the next sections and the appendices that follow. Unless specifically noted, the words “agency” and “agencies” as used in this document also include institutions of higher education seeking capital budget funding.

1.1 The strategic framework for budget decisions



The 2003-05 budget process created a new strategic framework

Governor Locke’s Priorities of Government approach for developing the 2003-05 operating budget created a strategic framework for Washington State government. This framework will be used in developing a statewide capital budget strategy. It starts with several basic questions:

- What are the results that citizens expect from government?
- What strategies are most effective in achieving those results?
- Given the money available, which activities should we buy to implement those strategies?
- How will we measure progress?

Statewide results that citizens most expect

For development of the 2005-07 budget, 11 critical statewide results have been identified that citizens expect from government. These results are listed in the table below.

Statewide Results
<ol style="list-style-type: none">1. Improve student achievement in elementary, middle and high schools2. Improve the quality and productivity of the workforce3. Improve the value of a state college or university education4. Improve the health of Washington citizens5. Improve the security of Washington’s vulnerable children and adults6. Improve the economic vitality of businesses and individuals7. Improve statewide mobility of people, goods, information and energy8. Improve the safety of people and property9. Improve the quality of Washington’s natural resources10. Improve cultural and recreational opportunities throughout the state11. Improve the ability of state government to achieve results efficiently and effectively

In the 2005-07 operating budget instructions, we asked agencies to display their budget submittal by activity (as defined in the agency activity inventory) and to show how each activity supports these statewide results. For more information, refer to the instructions at <http://www.ofm.wa.gov/budget/instructions/contents.htm>

You can also find data on key high-level indicators of success for each result area on the Priorities of Government page on OFM's web site at <http://www.ofm.wa.gov/budget/pog/overview.htm>.

Linking the agency's capital plan to statewide results

As in the past, we ask that the ten-year capital plan include the agency mission, the goals and objectives that define where the agency wants to be, and how the capital plan supports this mission.

This year, we also want to better understand how each agency's capital plan links and contributes to its strategic plan and to the statewide result priorities and activities.

Persuasive capital plans address agency and statewide priorities

The budget is one of the most important tools for implementing policy and achieving results. In its review of agency operating and capital budget requests, OFM will ask these key questions:

- What are the most effective strategies and activities in which to invest?
- How do we know we are purchasing these activities at the best possible price?
- Given financial or other constraints, how can we maximize the results that citizens want?

The best capital budget proposals are persuasive not only at the agency level but within the broader statewide context that the Governor and Legislature must consider in making decisions. Proposals that discuss the value and benefits of the outcomes they intend to deliver to the state will make a stronger case.

1.2 What is a Capital Project?

What is a capital project?

The term “capital project” identifies specific construction activities based on the **cost and longevity** (useful life) of the work to be accomplished. Capital projects involve construction of either new facilities or significant, long-term renewal improvements to existing facilities. Capital projects are funded in agency capital budgets from funds specifically set aside for capital purposes, such as highway and other dedicated funds, and the proceeds of bond sales or other long-term financing contracts. Grants funded in the capital budget are also considered capital projects.

When used separately, the term “project” in these instructions identifies a line-item appropriation title. For example, the appropriation titles “Special Commitment Center,” and “Legislative Buildings: Safety and Infrastructure” are each “projects.” However, the “Legislative Buildings: Safety and Infrastructure” project has several sub-projects (such as “Cherberg Building: Replace Roof” and “Legislative Building: Sandstone/North Steps”) within the appropriation title.

Capital projects are usually constructed by private contractors and involve an architect or engineer. Construction management is sometimes required, and for larger projects, a value engineering analysis and constructability review are performed during the design phase.

Capital project classifications

Capital projects are classified as preservation, programmatic, or grant projects based on their intended purpose:

Preservation projects change efficiency of use and may enhance program delivery. They do not change program use.

- **Preservation** projects maintain, preserve, and extend the life of existing state facilities and assets and do not significantly change the program use of a facility. Examples include renovating building systems and finishes, upgrading utility systems, and repairing streets and parking lots, etc. Projects undertaken to preserve existing assets will be reviewed and compared on a technical basis so that the most urgently needed work is financed first. Preservation category projects will not be driven by or result in significant program impacts, and may have little effect on future operating programs and budgets, except for reductions in the agency's maintenance costs and the deferred maintenance backlog.

Program projects change use or provide new space for new program goals.

- **Program** projects primarily achieve a program goal, such as changing or improving an existing space to new program requirements, or creating a new facility or asset through construction, lease, and/or purchase. This category is quite

broad, is less concerned with life extension of a facility, and includes projects ranging from building new facilities to significant renovation of existing facilities. Program projects may also improve conditions, accommodate changes in services or clientele, or increase or maintain federal reimbursement. Program projects must be tied to the statewide results and the agency's strategic plan by identifying the goals, strategies, and activities supported by the project.

Grant projects provide capital appropriations to state, tribal, local, or community organizations for special facilities.

- **Grant** projects provide capital appropriations to state, tribal, local, or community organizations for special facilities. In general, grant programs are either established in statute or have specific legislative provisions associated with the dispensation of the appropriated funds. Agencies who have statutory grant programs should submit ten-year capital budget requests within the limits established by statute. Agencies whose grant programs have no specified appropriation limits should submit two-year biennial appropriation requests based on their historical biennial expenditure history for the grants. Grant projects should be linked to the statewide results, the agency's strategic plan, and activities.

Ordinary or normal maintenance is usually not in the capital budget

Given the short useful life of repairs or maintenance work, costs for ordinary or normal maintenance usually are not included in the capital budget. Ordinary or normal maintenance are small, temporary, or routine repairs necessary to keep an existing facility or asset in useful condition for its function and occupants. The work maintains or preserves the usefulness of an asset rather than changing or significantly improving it, and there is usually little or no effect on operating costs of the facility at the completion of the work.

Usually, minor repairs or maintenance work can be done by agency trades staff or by private contractors, and there is generally no need for involvement of an architect or engineer.

1.3 The Basic Framework of the Ten-Year Capital Program

Agencies are required to submit ten-year capital plans



The Washington State Budget and Accounting Act (RCW 43.88) mandates a long-range approach to capital budget planning. The Act requires state agencies and institutions to submit a plan of proposed capital spending for a ten-year period, starting with the ensuing biennium. This long-range planning is designed to identify future issues and capital projects proposed to address those issues. The Ten-Year Capital Plan must support the agency's mission and the goals and objectives of its strategic plan. Information on each

project should discuss the project's link to the statewide results and what activities are supported.

The Governor's Capital Plan

The Governor will propose a Ten-Year Capital plan based on agency proposals and policy considerations. Projects included in the first biennium of the plan will constitute the Governor's capital budget. The Governor's Ten-Year Capital Plan will be submitted to the Legislature in December 2004.

Plans should describe construction and long-term operations and maintenance costs

The ten-year planning process recognizes that major capital projects span several biennia from start to finish. In many cases, capital budget decisions precede the implementation of operating programs with facility requirements by several years. For this reason, it is essential that decision makers be able to determine how today's capital budget decisions will affect state programs and operating costs in the future. In the ten-year plans, project information needs to include estimates for operating and maintenance costs, including any debt service that must be paid.

As in previous years, the Capital Plan Instructions recognize that certainty about state programs declines as agencies look further into the future. Therefore, the last four years of the capital plan need not contain the same level of project detail as the first six years. Requests for the last four years may be grouped into types of projects intended to accomplish general purposes such as preservation, additional space, conversion of existing space, and other capital needs if specific projects have not been identified.

Classifying capital projects aids decision making

The three main classifications of capital projects – preservation, program, and grant projects – provide a framework within which projects can be compared and selected. The three categories are discussed in Section 1.2.

Agencies must prioritize projects in two ways

Capital projects for the Ten-Year Capital Plan should be prioritized in two ways. First, prioritize projects in their order of contribution to the goals, objectives, strategies, and activities outlined in the agency's strategic plan. Second, prioritize projects using the OFM priority structure listed below. By cross-referencing these two lists, OFM can assess how agency priorities relate to a statewide capital budget strategy.

OFM's project priority structure

OFM's project priority structure includes:

Protection of people – Projects that alleviate health hazards or reduce risks to staff or the public.

Protection of assets – Projects that protect state assets or address site-specific emergencies where system failures and existing conditions require an immediate response to alleviate future damage to property, and may include actions that are the result of natural disaster, fire, accident, or court order.

Protection of the environment – Projects that reduce, repair, or prevent environmental damage.

Cost savings – Projects that reduce the cost of service delivery (particularly maintenance and/or staff) or that create or enhance a revenue stream that recovers the project cost within seven years.

Program need or requirement – Projects that accommodate new programs, improve service delivery, maximize federal aid, or meet space needs that are the result of program changes.

Grant – Projects that provide capital funding to state, tribal, local, or community organizations for development of special facilities.

1.4 The Ten-Year Capital Plan Submittal

Submittals are due by September 10, 2004

The Ten-Year Capital Plan is submitted electronically in the Capital Budgeting System (CBS) and five hard copies are to be sent to the Office of Financial Management (OFM) by **September 10, 2004**. Electronic files of the narrative materials are requested on a CD in Microsoft Office format. **Any changes to an agency's capital plan after original submission must be submitted both as hard copy and through CBS.**

Address submittals to:

Moya McKeehan or Craig Olson
Office of Financial Management
P.O. Box 43113
Room 301, Insurance Building
Olympia, WA 98504-3113

Electronic submission of data through the CBS is required

The CBS is an internet-based application for state agencies to use as a tool for analysis of internal options, sharing with stakeholders, and submission to OFM. Submission through the CBS is not intended to replace submission of a paper capital plan. The reporting feature of

the CBS offers some of the documentation needed for the paper submittal. Other information will be required in a paper-only format. If you have questions, contact Vicki Rummig at (360) 725-5268 or Vicki.rummig@ofm.wa.gov.

The CBS is available through two web sites. For users with access to the statewide Intranet, the address is <http://bass.ofm.wa.gov/basspr/>. If you cannot access this site or <http://swfs.ofm.wa.gov/>, you do not have access to the statewide Intranet and will need to access it through the secured Fortress server.



To access the system through our Fortress server, the address is <https://services-bass.ofm.wa.gov/basspr/>. You will need special access to use it. The BASS Security Authorization Form has a selection, Statewide Intranet Access, to request access to the Fortress server. (See Appendix D for an example of the authorization form.)

Electronic submission of capital budget data is required through the BASS Data Release. Data release access is granted separately from CBS access. Having access to CBS does not necessarily mean you have authorization to electronically release data. The Agency Access Reports are available within BASS to review established security by user in your agency.

Sections in the Ten-Year Capital Plan

The Ten-Year Capital Plan is divided into six sections which comprise most requests:

- narrative
- preservation
- programmatic
- grants
- alternate financed
- FTE summary

The agency capital narrative provides a linkage to the Priorities of Government statewide results, the agency's mission and strategic plan, its capital facilities and their condition, and the activities and performance measures in the operating budget. The capital narrative should:

- Link to the Priorities of Government statewide results
- Link to the strategic plan and/or how the project accommodates the plan's strategies, activities, and performance measures.
- Be consistent with operating budget requests.
- Describe why these projects are the preferred alternative and how these projects address the described need.

- Briefly describe alternatives considered and consequences of deferral.
- Include updated information about each project, and describe major changes from the Governor's 2003-2013 Capital Plan.
- Explain expected policy initiatives in the next decade.

After the narrative, include a C1 (Ten-Year Capital Program Summary) printed from CBS listing the projects in the Ten-Year Plan in agency priority order.

Preservation budget request describes those proposed projects intended to preserve, protect, and extend the life of existing physical assets. This section of the Ten-Year Capital Plan should contain a brief narrative describing the process used by the agency to select the projects. The narrative should clearly describe how projects are identified and prioritized among agency programs or locations.

The preservation request should be based on the backlog reduction plan that is further described in Section 11. Each preservation request also needs to include narrative regarding:

- Ties to strategic direction and activities from the agency's activity inventory.
- Link to the statewide results.
- Program impact of deferral.
- Alternatives of reinvestment (preservation vs. replacement) if preservation costs exceed 50 percent of the value of the asset being maintained.

Program budget request lists those projects necessary to address program needs. The request should support the statewide results and the agency's strategic plan, strategies, activities, and performance measures. This section of the Ten-Year Capital Plan should contain a brief narrative describing the process used by the agency to select the projects. The narrative should clearly describe how projects are identified and prioritized among agency programs or locations.

Grant budget request also identifies the link to statewide results and the agency's strategic plan, strategies, activities, and performance measures. This section of the Ten-Year Capital Plan should contain a brief narrative describing the process used by the agency to select the projects. The narrative should clearly describe how projects are identified and prioritized among agency programs or locations.

Alternate financing request identifies those proposed projects involving contractual arrangements for space or facilities. Alternate financing requests for leases must be supported by an economic

analysis based on the lease versus purchase decision model. Lease or debt service costs should be requested as part of an agency's operating budget during the biennium in which they occur.

Capital budget FTE summary displays actual staff and expenditures charged to capital projects in the 2003-05 Biennium and proposed staff and expenditures in the 2005-07 Biennium. Policy guidelines for administrative and staff costs in the capital budget are contained in Section 5. CBS provides data entry and produces this report.

Schematic Arrangement of Washington State Capital Plan Forms

Basic Arrangement

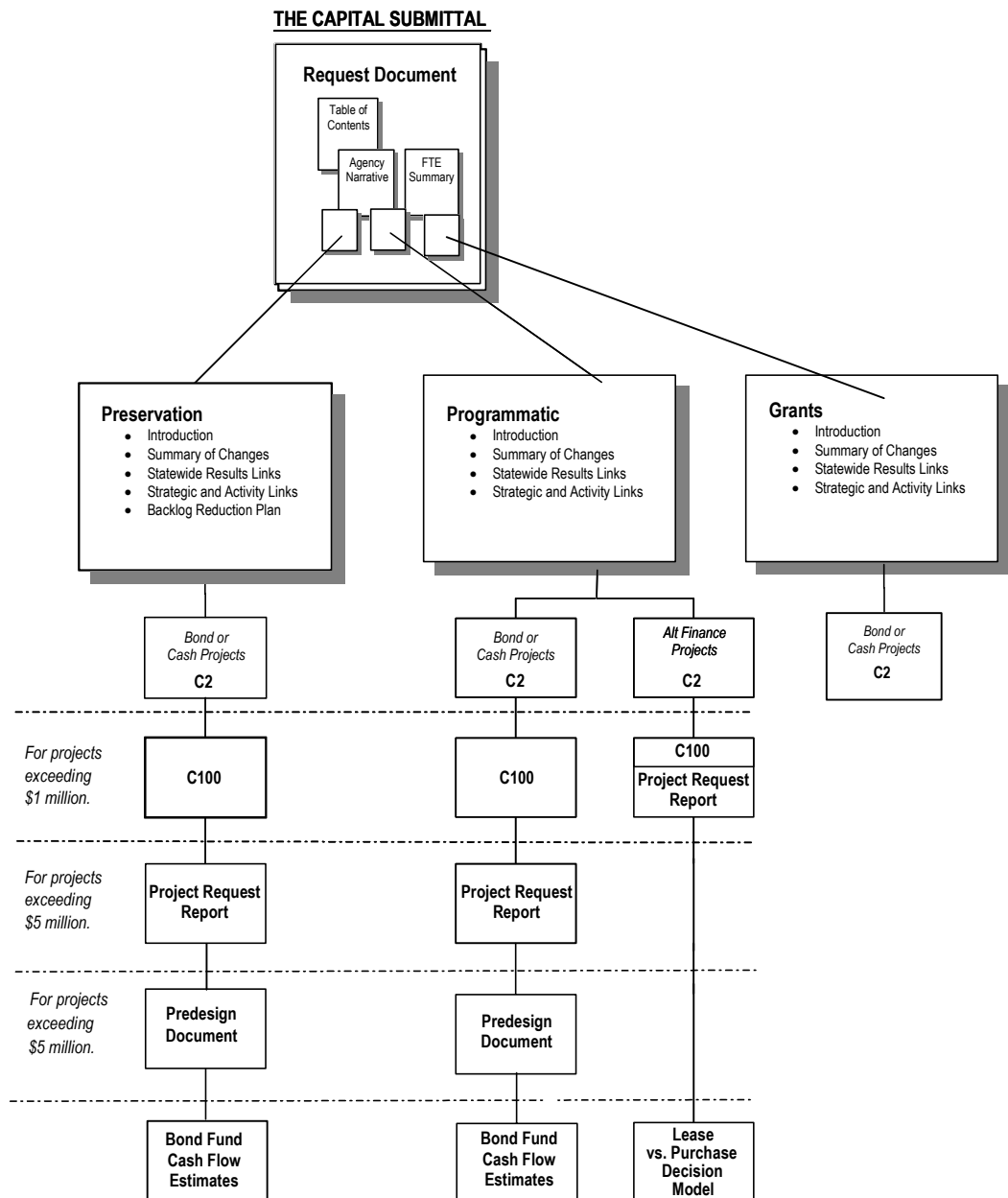
The Ten-Year Capital Plan is divided into six sections which comprise most requests:

- Narrative
- Preservation
- Programmatic
- Grants
- Alternate Financing
- FTE Summary

The Capital Plan must include a table of contents and a narrative describing agency strategic direction, and how the request ties to that direction.

Each section includes a narrative introduction describing how the projects in the section were selected by the agency, and a Capital Program Summary listing all projects in the section in priority order.

Alternate financed project requests may require analysis from the Lease vs. Purchase Decision Model.



A form **C2**, Capital Project Request, is completed for each project in each section, and produced through electronic submittal in the Capital Budgeting System (CBS). Where necessary, carefully selected additional information is attached to the C2. Present the forms in agency priority order proposed for implementation in each of the next five biennia.

A form **C100**, Capital Project Cost Estimate, must be completed for each project costing \$1 million or more.

A **Project Request Report** must be prepared for each major capital project with a total cost of \$5 million or more and each alternate financed project with a total cost of \$1 million or more.

A **Predesign Document** (including an updated Form C100 and a predesign C2) must be prepared for each major project with a total cost of \$5 million or more.

The **Bond Fund Cash Flow Estimate** must be submitted, as detailed in Section 8.